

CASE STUDY

Hutton Communications, Inc.
Acquired
Electro-Comm Distributing, Inc.
August 31, 2006

No matter what industry you're in, your best business opportunities often come from the personal contacts you develop over the years. In this case, it was personal contacts that directly led to Hutton Communication, Inc., of Carrollton, Texas, acquiring Electro-Comm Distributing, Inc., of Denver, Colorado, in August 2006.

Several years ago, Eliot Terborgh, Senior Associate at ASI, contacted John Walker, CEO of Hutton Communications, to see if Hutton would have any interest in acquiring an export distributor of mobile communications equipment that ASI represented. Based in Carrollton, Texas, Hutton is the nation's second largest distributor of communications equipment and accessories for the cellular and land mobile radio industries. As it turned out, Hutton was not interested in expanding overseas at the time, but was interested in acquiring domestic companies with product lines that were complementary to their own.

Since Eliot had spent nearly 30 years in the land mobile radio industry, he had developed a wealth of industry contacts in both manufacturing and distribution. Convinced that he could find the right company for Hutton to purchase, Eliot persuaded Hutton to retain ASI in the search for a suitable acquisition candidate.

Again, drawing on his industry contacts, Eliot phoned one of his former distributors, Electro-Comm Distributing, Inc., of Denver, Colorado. Electro-Comm was a well established regional distributor of land mobile communications equipment that had recently expanded into the rapidly growing "Wi-Fi" market, resulting in an exponential increase in their sales volume during the past three years. As a family owned and operated business, Electro-Comm struggled at times, both financially and managerially, to keep up with their rapid growth. Shortly before Eliot contacted them about a possible merger with Hutton, the Electro-Comm owners had decided that their best avenue for future growth was to join forces with a larger firm with greater financial resources and a broader market base.

The initial introduction of Electro-Comm and Hutton was made in the summer of 2005 at a breakfast meeting in Denver. However, the merger was not completed until one year later. After six months of "foot dragging" by both parties, the deal finally got on track in the spring of 2006, when Hutton presented a Letter of Intent to Electro-Comm.

The receipt of the Letter of Intent represented a moment of truth for the sellers. As much as they may have discussed a sale among the family shareholders, they were now faced with a concrete proposal to purchase their business, which caused a considerable amount of soul searching and second guessing among the family, particularly those directly involved with the company. It was during the ensuing six weeks of negotiations that ASI really earned their fees. As the intermediary in the back and forth negotiations

between buyer and seller, Eliot not only relayed numerous proposals and counter-proposals, but also was able to convey the true meaning, feelings and emotions behind the proposals and to allay the natural fears and concerns of the sellers.

The Letter of Intent was signed in April 2006, and after a lengthy but relatively smooth due diligence process, the transaction closed on August 31st. Electro-Comm is now a wholly owned subsidiary of Hutton Communications, Inc., but continues to operate at its Denver facility. As is typical in transactions involving closely-held companies, the management team has committed to remain for three years, with strong incentives to continue the growth and success of the business.

Like most successful sale or merger transactions, this case is truly a win-win scenario. The buyer was able to expand their customer and product base into new, high-growth markets, while the sellers were able to engineer a profitable, long-term exit strategy for the family shareholders. At ASI, these are the outcomes that make our effort worthwhile.